

CONSUMER INFORMATION

Federal Communications Commission, 1919 M Street NW, Washington, DC 20554

The FCC's Interstate Access Charge System

Introduction

This brochure describes actions the FCC has taken to:

- ★ ensure that all Americans have affordable access to telephone services;
- ★ reduce long-distance rates; and
- ★ restructure various interstate charges to facilitate the development of increased competition for local telephone service.

The increased competition resulting from the FCC's decisions will benefit consumers by producing lower rates, greater choice, and improved service. The decisions deal with access charges paid by long distance companies to local telephone companies and certain charges from local telephone companies that appear on your monthly bill.

Interstate Access Charge System

The monthly service fee that consumers pay for local telephone service historically has not been high enough to cover all the booked costs of the local telephone company in operating and maintaining the local telephone network. Part of these costs are recovered instead through charges to long distance companies, who use the local networks in completing their long distance calls. These charges to long distance companies are called "**access charges**" and are part of the long distance companies' costs of providing long distance service.

Each long distance telephone call you make includes per-minute fees that your long distance carrier pays to both your local telephone company and to the local telephone company of the person you call.

The FCC has recently reformed its system of interstate charges to make the system compatible with the development of competition for all telecommunications services, including local telephone service. Most of these changes became effective January 1, 1998. Some of those changes concerned the federal subscriber line charge, which is part of the fees paid by you the individual residential or business telephone service subscriber. Changes to the subscriber line charge only affect business and residential customers with more than one telephone line. They do not affect residential customers with one telephone line and single-line business customers.

The FCC also changed its rules concerning the access charges that long distance companies pay to local telephone companies for use of the local companies' telephone network. That is, when a consumer makes a call the long distance carrier must use the calling party's local phone company to pick up that call, and the receiving party's local company to complete that call. The long distance company is required to pay each of these local companies for "access" they provide to these consumers. Under the FCC's new rules, the charges the long distance companies pay local telephone companies for each line the long distance companies serve went up -- but the per-minute charges long distance companies pay for each call made by their customers were reduced by an even greater amount. There are two

federal access charges that affect consumers directly. Some common questions about these charges follow.

Federal Subscriber Line Charge

What is the Federal Subscriber Line Charge?

Local phone companies recover some of the costs of the telephone line connected to your home or business through a monthly charge on your local telephone bill. This charge is usually called the "**subscriber line charge**." It is sometimes called the "federal subscriber line charge" because it is regulated by the FCC and not by state public utilities commissions.

The subscriber line charge is part of a comprehensive program governing how local telephone companies recover the costs of providing "local loops," a term that refers to the outside telephone wires, underground conduit, telephone poles, and other facilities that link each telephone customer to the telephone network.

Is the subscriber line charge a new charge on my local telephone bill?

No. This charge has existed for a number of years.

Is the subscriber line charge a tax?

No. The subscriber line charge is not a tax, but is part of the price charged by local telephone companies. Neither the FCC nor any other government agency receives the subscriber line charges. Local telephone companies collect subscriber line charges to cover part of their costs of operating and maintaining the local telephone network.

Is the subscriber line charge a charge for making or receiving long distance calls?

No. All local loops can be used for making and receiving local and long distance calls. The costs involved with connecting a telephone customer to the telephone network are not affected by the number or type of calls the customer places or receives.

The costs involved with providing local loops are incurred by local telephone companies regardless of whether a customer places or receives any long distance calls. Because the same telephone line is used for both local and

long distance calling, a portion of the line costs are attributed to the ability to place and receive long distance calls.

What is the maximum subscriber line charge for residential telephone lines?

To ensure that all Americans can afford at least a minimal level of basic telephone service, the subscriber line charge for primary residential lines is capped at \$3.50 per month. Under the FCC's access reform plan, the monthly \$3.50 maximum subscriber line charge for primary residential lines will not increase. This cap was set at a time when the vast majority of homes had only one telephone line.

As part of its access charge reform effort, however, the FCC reduced the subsidies that keep the subscriber line charge low for residential consumers beyond their first telephone line. In this brochure, the second and any additional telephone lines connecting consumers' residential telephone service to the telephone network are called "***non-primary***" lines.

In 1998 the maximum subscriber line charge for each non-primary residential line will increase by up to \$1.50 per line per month, and thus will be capped at a maximum charge of \$5.00 per line per month. If the telephone company's average interstate costs of providing the line are less than \$5.00, the company can only charge the consumer the amount of its costs.

Why do customers with more than one residential telephone line have to pay more?

The FCC's access reform plan reduces and in many cases eliminates subsidies for consumers who have more than one residential telephone line. It does not impose a tax on those additional lines. In the past, the maximum \$3.50 subscriber line charge consumers paid for non-primary residential telephone lines did not cover the local telephone companies' local loop costs for those lines.

The access reform plan reduces subsidies for non-primary residential telephone lines and shifts the method by which local telephone companies recover the costs of providing local loops. This is part of an overall plan to substantially reduce per-minute long-distance phone rates. Many consumers with more than one residential telephone line will be better off under the new system -- especially those who make a substantial amount of long-distance calls.

The system of subsidies required to pay the balance of local loop costs has forced everyone to pay higher long-distance rates. The subsidies also have stifled local competition because new companies had to compete against subsidized rates charged by existing local phone companies.

The FCC decided to allow the local telephone companies to raise the flat fee on non-primary residential telephone lines so that those lines are no longer subsidized, or at least receive less subsidy. The increase in permitted charges for non-primary telephone lines is intended to help ensure that consumers pay for the cost of the facilities they use.

What is the maximum subscriber line charge for business customers?

The maximum subscriber line charge for single-line business customers will remain capped at a maximum charge of \$3.50 per line per month.

The maximum subscriber line charge for multi-line business customers is the local company's average interstate cost of providing a line in that state or \$9.00 per line per month, whichever is lower. The current average subscriber line charge for multi-line business lines is \$6.92 per line per month.

Presubscribed Inter-exchange Carrier Charge

What is the Presubscribed Interexchange Carrier Charge?

The Presubscribed Interexchange Carrier Charge is a new way that long distance companies are charged access charges by local telephone companies. Instead of paying a higher charge per minute, the long distance companies now pay to local telephone companies a flat-rated, per-telephone line charge plus a lower charge per minute.

As noted above, the maximum subscriber line charges do not recover all of the interstate portion of the local loop costs. In the past, that shortfall has been recovered through the per-minute access charges paid by the long distance companies. The Presubscribed Interexchange Carrier Charge is designed to recover the local telephone companies' interstate local loop costs not recovered through subscriber line charges. The Presubscribed Interexchange Carrier Charge rates will vary from state to state based on the actual cost of providing local phone service in each area.

A long distance company pays this charge for each residential and business telephone line presubscribed to that long distance company. If a consumer or business has not selected a long distance company for its telephone lines, the local telephone company may bill the consumer or business for the Presubscribed Interexchange Carrier Charge.

As a larger percentage of access charges are recovered through monthly per-line charges, the per-minute access charges paid by the long distance companies decrease. Consumers should therefore expect to continue to see reductions in the per-minute rates they pay for long distance calls.

What is the maximum Presubscribed Interexchange Carrier Charge paid by long distance companies for residential telephone lines and single-line business lines?

In 1998, the maximum Presubscribed Interexchange Carrier Charge per line per month for primary residential lines and single-line business lines is \$.53.

For non-primary residential lines, the maximum Presubscribed Interexchange Carrier Charge will be \$1.50 per line per month in 1998. As the various phases of the FCC's plan are implemented in 1999 and later years, and as the FCC continues to implement universal service support for rural and high cost areas, the Presubscribed Interexchange Carrier Charge for second and non-primary residential lines paid by long distance companies will decrease over time. It is estimated the average per-line Presubscribed Interexchange Carrier Charge will never exceed \$2.00 for non-primary lines, and in many places will eventually be zero.

What is the maximum Presubscribed Interexchange Carrier Charge paid by long distance companies for multi-line business lines?

In 1998 the maximum Presubscribed Interexchange Carrier Charge for each multi-line business line is \$2.75. In 1999 and 2000, the Presubscribed Interexchange Carrier Charge ceiling will be adjusted for inflation and, if necessary for certain companies, will be increased by approximately \$1.50 per year. As various phases of the FCC's plan are implemented in 1999 and later years, it is estimated that the average Presubscribed Interexchange Carrier Charge for multi-line business lines will dip below \$1.00 in 2001 and in many places will eventually be zero.

My long distance company lists charges apparently related to the Presubscribed Interexchange Carrier Charge on my monthly bills. Did the FCC require long distance companies to bill consumers for Presubscribed Interexchange Carrier Charges?

No. The FCC did not require long distance companies to add the Presubscribed Interexchange Carrier Charge -- or any new charges or surcharges -- on your telephone bill.

Long distance companies are taking very different approaches to whether and how they are changing charges to their customers to reflect the Presubscribed Interexchange Carrier Charges they pay. Some long distance companies are charging their customers higher rates or new charges and surcharges -- such as a "national access fee" -- to recover the Presubscribed Interexchange Carrier Charges the long distance companies pay to local telephone companies.

Increases in per-line and other charges paid by the long distance companies, such as the Presubscribed Interexchange Carrier Charge, however, have been largely offset by reductions in per-minute charges paid by the long distance companies to local telephone companies.

Tips For Consumers

***The company that provides my
long distance telephone service
added Presubscribed Interexchange
Carrier Charges to my bill.
What options do I have?***

- ★ Let the company know if you believe these charges are inappropriate or are too high. It's in the company's best interest to meet the needs of its customers.
- ★ Companies compete for your telephone business. Use your buying power wisely and shop around. Long distance companies are taking very different approaches to whether and how they are changing charges to their customers to reflect the Presubscribed Interexchange Carrier Charges they pay.

Call other companies and ask if they add these types of charges to their customers' bills. If these types of charges are added to customers' bills, ask each company to explain how these charges are calculated and exactly what amount would appear on your bill if you decide to use the company's services. Be sure to ask each company about its per-minute rates and special calling plans. You should

make sure that you are getting the best deal for the types of calls you place.

- ★ Find the carrier whose combination of per-minute calling rates and any additional charges best meets your needs. For example, if you make a lot of long distance calls you might want to avoid a long distance company that charges its customers for the Presubscribed Interexchange Carrier Charge through a surcharge on the amount you spend on long distance calls.
- ★ If you have a contract with a telephone company to provide long distance or wireless service, carefully read the contract to determine whether or not the company is allowed to add new charges or surcharges to your bill.

It is important to remember that:

- ★ The long distance companies' interstate access charge payments did not increase. Their Presubscribed Interexchange Carrier Charge payments, and payments they make to ensure that all Americans have affordable access to telephone services, are largely offset by reductions in the amount of per-minute charges the companies pay for each call made by their customers.
- ★ Because there is competition for long distance service, the FCC does not regulate how long distance companies compute their charges or the amount of those charges. The FCC did not tell the long distance companies how to adjust their customers' rates in response to changes to access charges, including the companies' new Presubscribed Interexchange Carrier Charge payments. The long distance companies have decided what to do, and some have implemented charges significantly different from other companies.